Healthy May for Pareto Hedge Funds

Stockholm (HedgeNordic) – Pareto Asset Management of Norway enjoyed healthy bounces for both its funds in May, reporting increases of 2.23% for its Nordic Alpha plc fund and 2.72% for its Nordic Omega plc fund. These figures were by comparison to a 2.1% rise in the OSEFX index, a 2.6% rise in the MSCI N* index and an appreciation of an estimated 0.76% in the Nordic Hedge Index Composite (NHX).

The Nordic Alpha fund, incepted in September 2003 and with 757m (NOK) in AUM, had a net long position in equities of 68% at the end of May. The best contributors for the month were its holdings in Scatec Solar (+18%), Skandiabanken (+14%), Gränges (+13%) and SCA (+5%). The fund's greatest detractor was its holding in Nordic Semiconductor. The fund opted to lower its overall net long exposure by reducing its positions in Autoliv and Svenska Cellulosa, both of which have outperformed significantly in both the long and short term. It also bought more shares in Electrolux, where it perceives strong potential for further margin improvements.

The Nordic Omega fund, incepted in December 2005 and with 307m NO) in AUM, had a net long position in equities of 81% at month's end. Its best contributors in May were Rockwool International with +19%, Scatec Solar (+18%), Skandiabanken (+14%) and Norwegian Finans Holding (+8%). The fund's holding in Nordic Semiconductor was again the greatest detractor. Nordic Omega opted to take a new position in Sweden's Coor Service Management, the Nordic leader in integrated facility management. As Coor's business risk is relatively low given that it does not require large capital investments and its contracts have long maturities, Nordic Omega as shareholders benefit from a strong cash flow and good growth prospects in both the top and bottom lines. Coor now constitutes 3.7% of the Nordic Omega fund.

In a commentary for May, Yngve Torvanger Jordal, the funds' analyst and portfolio manager (with Christian Nygaard), suggests the continuing rise of oil prices despite the stronger US Dollar appears to have had positive spillover effects on equities and risk appetites. Equity markets have rebounded sharply since the steep downturn in the first two months of the year, which Mr Jordal attributes to further monetary stimulus from the ECB and Japan, alongside deferred rate hikes from the Federal Reserve. Earnings have been revised down while valuation multiples have risen, with positive signs of growth in the U.S. in May extending into expectations of a possible rate hike by the Fed this month. Mr Jordal says management has become even more selective on the long side due to it becoming increasingly difficult to find companies likely to produce significant earnings growth.

Considering current negative interest rates, Nordic Alpha and Nordic Omega's management reinforces its view that there are more opportunities in owning equities than in fixed income or on the short side, even with moderate earnings growth and susceptible to high valuation, particularly for their portfolios with a 3.4% robust annual dividend each. Investor uncertainty and redemptions in mutual funds leaves an upside in many stock valuations, which has been helpful. The long positions for each fund are currently priced at (weighted) 13.8 x 2016 earnings and 1.8 x book value, with a return on equity of 17%, a free cash flow of 6% and a current yield of 3.4%.

Picture: (c) MR.LIGHTMAN1975—shutterstock.com